

## Skeleton Licence

This skeleton is intended to show the sort of clauses you might find in an IP licence agreement. It refers to clauses that you might find in all licences, regardless of the IP; and clauses that are more specific to particular types of IP.

While the skeleton may appear long and complicated, remember that it needs to set out the relationship of licensor and licensee clearly to try to avoid any dispute, so that if there is a dispute it can be resolved as economically as possible and as the parties would have wanted, and so that if the same IP is to be used elsewhere there is no ambiguity as to the rights granted to the first licensee and what is available to others.

Remember that the ideas listed are only examples and they all need to be adjusted to apply to the particular licence and the product and the scale of the operations being licensed. And there are an infinite variety of other possibilities.

The skeleton focuses on patents, registered and unregistered trade marks, copyright, and know-how/ confidential information as being the most common IP rights. However similar considerations apply to the other types of IP.

The skeleton focuses on licensing in the UK and EU. Remember that the law in other countries, including other EU countries, is often different, from that in the UK although many of the basic principles that are set out below apply universally. So you will need appropriate advice.

Bear in mind that you will need advice from a professional who is knowledgeable about IP to help you and although potentially attractive there are risks in going it alone. If you do not have such an advisor go to [www.ipot.gov.uk/business-support.htm](http://www.ipot.gov.uk/business-support.htm).

## Common licence terms

<b>Parties.....</b>	<b>2</b>	<b>Payment of monies due .....</b>	<b>3</b>
<b>Recitals.....</b>	<b>2</b>	<b>Exchange rates .....</b>	<b>3</b>
<b>Definitions .....</b>	<b>2</b>	<b>Late payment .....</b>	<b>3</b>
<b>IP to be licensed .....</b>	<b>2</b>	<b>Accounts .....</b>	<b>3</b>
<b>Use to be made of the IP .....</b>	<b>2</b>	<b>Verifying accounts.....</b>	<b>3</b>
<b>Geographic area where the IP may be used .....</b>	<b>2</b>	<b>Termination .....</b>	<b>4</b>
<b>Status of the licence.....</b>	<b>2</b>	<b>    By the running of time .....</b>	<b>4</b>
<b>Life of the licence .....</b>	<b>2</b>	<b>    On breach.....</b>	<b>4</b>
<b>Transfer of technology.....</b>	<b>2</b>	<b>Consequences of termination.....</b>	<b>4</b>
<b>Confidentiality.....</b>	<b>2</b>	<b>    By the running of time .....</b>	<b>4</b>
<b>Standards of quality .....</b>	<b>2</b>	<b>    On breach.....</b>	<b>4</b>
<b>Performance obligations .....</b>	<b>2</b>	<b>Service of notices.....</b>	<b>4</b>
<b>Improvements .....</b>	<b>3</b>	<b>Law and Courts/ADR.....</b>	<b>4</b>
<b>Fees for the licence .....</b>	<b>3</b>	<b>Execution provisions and schedules ..</b>	<b>4</b>
<b>Inflation.....</b>	<b>3</b>		

## 1. Parties

The names and identifying details of the licensor and licensee (and any other parties to the agreement, for example a guarantor).

## 2. Recitals

These set out the background to the transaction. While not formally part of the agreement itself, they may be useful as a record of the purpose of the transaction and useful if there is ambiguity in the agreement.

## 3. Definitions

Define specific terms used in the agreement.

## 4. IP to be licensed

Details of the IP rights being licensed must be set out accurately in the agreement. These details may appear in the opening of the document or, if the details are extensive, may be put in a Schedule at the end of the agreement.

## 5. Use to be made of the IP

The agreement must say what the licensee can do with the IP. For example, make goods using the IP, sell those goods, etc.

The licensee may only be allowed to use the IP in relation to certain sorts of goods. Note that competition law is likely to impact on such restrictions. So these need to be discussed with your advisors.

## 6. Geographic area where the IP may be used

The agreement must define where the IP may be used. For example a licensee may be allowed to make goods in only one country but to sell more widely.

Note that competition law is likely to impact on such restrictions. So again these need to be discussed with your advisors.

## 7. Status of the licence

Is the licence being granted exclusive (the licensor may not use the IP and only the licensee can use it); sole (the licensor and the licensee may use the IP, but no other licences can be given); non-exclusive (the licensor may use the IP and may license others to use it too)? [Note the terms exclusive, sole and non-exclusive commonly have the meanings set out here, but they will usually be defined in more detail in the agreement.]

Can the licensee grant sub-licences and if he can to whom and on what terms?

## 8. Life of the licence

When does the licence start and end.

[Commonly for IP having a natural life, such as patents, the licence will continue until the specific patent or patents licensed under the agreement expire. For licences of trade marks and know-how the life will normally be specified as a period of years. And see “Termination By the running of time” below.]

## 9. Transfer of technology

How and when will know-how be transferred to the licensee. This might include the licensor supplying drawings and manuals and providing technical help in the licensee's plant to set it up and get it running. While the initial help may be included in the normal licence payment terms there is often provision for extra help to be paid for.

The licence may provide for on-going help, again usually for a fee.

## 10. Confidentiality

If information that is confidential to a party, including know-how, is being transferred (as in practice it almost certainly will be) there will be restrictions on what use can be made of it, who can have it, and any relevant terms, such as signing confidentiality agreements, that apply to such a recipient. The licensor may require the licensee to enforce such confidentiality agreements.

## 11. Standards of quality

Particularly in trade mark licences, where the reputation of the licensor depends on the quality of the products sold under his mark, the licensee will have to produce goods to a particular standard of quality to prevent there being any damage to the reputation of the licensor's trade marks.

The licensor will want to be able to check that the standards are being observed.

## 12. Performance obligations

Particularly in an exclusive or a sole licence, where the licensee is the only or a major source of revenue from the products, the licence needs to oblige the licensee to perform. This is commonly done by making the licensee use “his best endeavours” or “all reasonable endeavours” to work the licence.

However these obligations are imprecise and the licensee may also have to:

- Make minimum sales under the licence, the minima increasing each year;
- Earn (or in some cases pay) minimum royalties under the licence, such royalties increasing each year (and possibly being further increased for inflation see “**inflation**” below);

to ensure that the licensor is rewarded for his licence.

Failure would be a breach of the licence and allow the licensor to terminate the licence (see “**termination**” below) and/ or to convert the licence from an exclusive or sole licence to a non-exclusive licence.

### **13. Improvements**

There need to be provisions for each party to supply improvements to the IP to the other, and setting out what use that can be made of those improvements. Usually the licensee can only use the improvements within the scope of the licence. But the licence needs to say whether improvements licensed to the licensor can be used for all purposes or only within the scope of the licence, and whether the licensor can pass them on to his own licensees.

If you want the licensee to assign back improvements to you this may cause difficulties. You are strongly advised to seek advice from an advisor specialising in competition law.

### **14. Fees for the licence**

Fees for the licence can include one or more of:

- A lump sum on or shortly after signing the licence;
- Periodic payments, perhaps quarterly or six monthly, including payments on account of royalty;
- A royalty based on the number or the value of items made and/ or sold under the licence.

If the royalty is based on the selling price of the goods there need to be provisions to ensure that the price is an open market price and not a transfer price at which the goods are sold to an associated company, which might be less than the open market price.

### **15. Inflation**

If a royalty is based on the sale price the royalty rate will change as the price of the goods change with inflation and with changes in the efficiency of producing the goods, so that no particular terms for dealing with inflation are needed.

If the payments are not linked to the sale price, to allow for inflation any future payment may be indexed to a suitable index appropriate to the particular goods dealt with.

### **16. Payment of monies due**

The licence needs to specify when fees will be paid. Pre-established lump sum fees can be paid on a specific day. For royalty payments a common provision is for the licensee to calculate how much he has sold in, say, each three month period and to pay the royalty due within one month after the end of that three months.

### **17. Exchange rates**

If royalties are not calculated in Pounds Sterling, a mechanism for calculating the exchange into Pounds Sterling is needed. This is commonly done by calculating the amount of royalty due in the local currency and then calculating how much in Pounds Sterling that money will buy on the due date for payment. That amount is the sum due to the licensor and it is not affected by fluctuations in the exchange rate thereafter. [If exchange rates change thereafter this may benefit or disadvantage the licensee, but the licensor knows exactly how much he is due.]

### **18. Late payment**

There is commonly a provision for interest to accrue on late payments, often calculated as so many percent about a well established rate of interest, for example the rate of interest demanded by a UK clearing bank.

### **19. Accounts**

The licensee is usually required to produce accounts each year, verified by his accountant, that the payments made are correctly calculated. Again there are usually provisions to deal with the situation if there has been over payment [royalty carried forward against future royalties] or under payment [pay the difference plus interest, as above].

### **20. Verifying accounts**

The licensor is commonly given the right to inspect the licensee's accounts to check they are correct. The licensee must make available all relevant paperwork. Commonly the licensor may not do the inspection himself, to stop him learning the licensee's trade secrets, and must pay an independent accountant to do the inspection. If the inspection reveals a discrepancy the over or under payment is corrected [see “**accounts**” above]. Commonly if the inspection reveals a discrepancy of more than, perhaps 5%, in the figures due the licensee must pay the accountant's fees.

## 21. Termination

### By the running of time

The licence agreement will need to come to an end at some time. If there are IP rights with a particular life, such as patents, the licence will usually expire when the last of the patents licensed under the original licence comes to an end. If the rights have no natural life, such as know-how or trade marks, or a very long life, such as copyrights, there will need to be either a fixed expiry date for the licence or some way in which the licence can be ended by notice.

[Note that there are rules under competition laws to prevent overlong licences. The life of the licence needs to be discussed with your advisors. And see “**Life of the licence**” above.]

### On breach

If there is a breach of the licence terms by one party, the other is commonly allowed to bring the licence to an end. Such termination may only be possible for a serious breach [which may give rise to argument as to whether or not a particular breach is serious] or for repeated breaches of the agreement.

Unless the breach cannot be put right, when notice of termination can be given straightaway, the common procedure is for the other party, the party not in breach, to give notice specifying the breach and saying that if the breach is not put right within the period specified in the agreement, commonly thirty days, the other party will give notice of termination.

There will usually be a period from the date of service of a notice of termination before it is effective, again commonly thirty days. This allows the licensee a chance to stop his business in an orderly way.

## 22. Consequences of termination

### By the running of time

Commonly the licensor and licensee can continue to use the IP they have already received. However if a trade mark has been licensed, on termination the licensee will have to stop using the mark or marks.

### On breach

The licence will come to an end, the licensee must stop operating under the licence and must return to the licensor any material related to the licence that he holds. The licensee may be allowed to sell existing stock, but must pay royalty on it.

## 23. Service of notices

A provision saying how notices can be given. Preferably they should be in writing, so that there is no argument as to what was in the notice.

The methods of giving notice should be set out. Commonly by post, by fax or by e-mail. Sometimes specific types of post, first class or recorded delivery post, must be used.

The date when the notice is deemed to be served should be laid down as it is from the date of service that time periods will run.

## 24. Law and Courts/ADR

There will often be a provision stating which law applies and to which courts any dispute may be taken or whether some form of alternative dispute resolution (ADR) is to be used.

## 25. Execution provisions and schedules

These will be at the end of the licence.